Gaan na inhoudsopgawe

Topic 1

# Basic accounting concepts

## Question 1

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| Accounting reduces the risks and uncertainties that investors and lenders must deal with to ensure them that their money is save and they will receive it back in the future. |
| Accounting provides relevant and reliable information about transactions. They know the transactions are correct and not outdated. |
| Data is selected that has an economic impact on the entity The data is processed through the accounting process so that investors know what they can expect. |
| Accounting is used to convey information about the finances of an enterprise to anybody who are interested in the information. |

## Question 2

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| The income statement is used to record income and expenses for the financial period to calculate the net profit or loss. |
| Balance sheet shows the financial position of the entity at a specific point of time using the balances of assets, liabilities, and equity. |

## Question 3

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| Assets, liabilities, equity determines the financial position. |
| Income and expenses to determine the financial performance and profitability. |

## Question 4

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| 4.1 It is the net asset value of the entity (assets less liabilities). |
| The interest the owner has in the assets of the entity after deducting all its liabilities (net asset value). |
| Equity is made up of capital or assets contributed by the owner to generate profit. |
| 4.2 Equity is made up of capital or assets contributed by the owner to generate profit. |
| Profits increase capital and losses decrease capital. |
| Withdrawal of money, assets or inventories reduces the equity. |
| 4.3 Income increases profits and the equity because the owner is entitled to the profit. |
| Expenses decrease profits and equity because the owner will receive less profit. |

## Question 5

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| 5.1 Assets belong to the business that is controlled by the business that will lead to future economic benefits. |
| The value of assets can never be higher that the money that will flow into the business in the future. |
| 5.2 The value of non-current assets will remain the same for the next 12 months, fixed assets and investments. |
| Value of current assets will change within the next 12 months, inventory, debtors, cash |
| 5.3 Fixed or tangible assets purchased: Land and buildings; equipment; furniture, vehicles. |
| Financial assets: Fixed deposits or investments in shares in another company. |

| **5.4 Non-current assets** | **Current assets** |
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| Land and buildings | Bank, petty cash and cash float. |
| Equipment/Furniture | Money in bank |
| Machinery | Inventory |
| Vehicles | Trade debtors |

Gaan na inhoudsopgawe

## Question 6

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| 6.1 A liability is a present obligation of the entity. Will cause an outflow of economic benefits in the future. |
| The value of the money owed must be measured reliably, because it is equal to the amount that will flow out of the business in the future. |
| 6.2 The value of non-current liabilities will remain the same for 12 months in the future, loans. |
| Value of current liabilities will change within 12 months, creditors, bank overdraft. |

## Question 7

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| Income increases profit that will increase equity during the current accounting period. |
| It increases assets, ex. bank and debtors increase. |
| It decreases liabilities, ex. discount received. |
| The money that will flow into the business in the future must be measured reliably. |
| Services rendered, commission received, interest income, sales, rent income |

## Question 8

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| Expenses decrease economic benefits during the accounting period. |
| It causes an outflow of assets – bank decreases. |
| It causes an increase in liabilities – creditors increase. |
| The money that will flow out of the business in the future must be measured reliably. |
| Water and electricity, cost of sales, stationery, advertising |
| Telephone, interest expense, rent, insurance |

## Question 9

| | Expenses | Income | Assets | Liabilities |
|---|---|---|---|---|
| Rent | +600 | | -600 | |
| Furniture | | | +2 000 | +2 000 |
| Trading stock | | | +3 000<br>-3 000 | |
| Commission | | +300 | +300 | |
| Carriage on sales | +280 | | -280 | |
| Creditors | | | -1 800 | -1 800 |
| Service rendered | | +1 400 | +1 400 | |

## Question 10

| Column 1 | | Column 2 | | Answer |
|---|---|---|---|---|
| 1. | Currents assets | A. | Loan | E. |
| 2. | Income | B. | Stationery | H. |
| 3. | Owner's equity | C. | Equipment | F. |
| 4. | Fixed assets | D. | Creditors | C. |
| 5. | Expenses | E. | Bank | B. |
| 6. | Financial assets | F. | Capital | G. |
| 7. | Non- current liabilities | G. | Fixed deposits | A. |
| 8. | Current liabilities | H. | Discount received | D. |

## Question 11

| No | Equity | Assets | | Liabilities | | Income | Expenses |
|---|---|---|---|---|---|---|---|
| | | Current assets | Non-current assets | Current liabilities | Non-current liabilities | | |
| Ex | | Bank | | | | | Wages |
| 1. | Capital | Bank | | | | | |
| 2. | | Bank | Equipment | | | | |
| 3. | | | | Creditors | | | Hair products<br>Consumable stores |
| 4. | | Bank | | | | Services rendered | |
| 5. | | Bank | | | | | Electricity |
| 6. | | Bank | | | Loan: ABSA | | |
| 7. | Drawings | Bank | | | | | |
| 8. | | Bank | | | | Commission | |

Gaan na inhoudsopgawe

## Question 12

| Column 1 | | Column 2 | | Answer |
|---|---|---|---|---|
| 1. | Currents assets | A. | Long-term loan must be paid over a period of 5 years. | H. |
| 2. | Income | B. | Money provided by the owner to start the business. | F. |
| 3. | Owner's equity | C. | Assets with a useful life of more than a year. | I. |
| 4. | Fixed assets | D. | Debt that must be paid back within a year. | C. |
| 5. | Expenses | E. | Used to record a transaction in the accounting records of the business. | G. |
| 6. | Transaction | F. | Money received for providing a service. | J. |
| 7. | Current liabilities | G. | Paid to run a business. | D. |
| 8. | Capital | H. | Assets increasing or decreasing within a year. | B. |
| 9. | Non-current liabilities | I. | Total assets less total liabilities. | A. |
| 10. | Source document | J. | Exchange between two parties. | E. |

## Question 13

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| (a) Sales – Cost of sales + Other income – Other expenses | |
| 180 000 – 120 000 + 14 000 – 34 000 | 40 000 |
| $\frac{\text{Net profit}}{\text{Capital}} \times \frac{100}{1}$ | |
| $\frac{40\ 000}{100\ 000} \times \frac{100}{1}$ | |
| 40% | |
| (b) $\frac{\text{Net profit}}{\text{Capital}} \times \frac{100}{1}$ | |
| $\frac{24\ 000}{200\ 000} \times \frac{100}{1}$ | |
| 12% | |
| (c) Sales – Cost of sales + Other income – Other expenses | |
| 160 000 – 120 000 + 20 000 – 24 000 | 36 000 |
| $\frac{\text{Net profit}}{\text{Capital}} \times \frac{100}{1}$ | |
| $\frac{36\ 000}{160\ 000} \times \frac{100}{1}$ | |
| 22,5% | |

## Question 14

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| Sales | 60 000 |
| Cost of sales | (40 000) |
| Gross profit | 20 000 |
| Income | 4 000 |
| Expenses (7 000 + 6 000) | (13 000) |
| Net profit | 11 000 |

## Question 15

| | | |
|---|---|---|
| 15.1 Sales | | 90 000 |
| Cost of sales | | (40 000) |
| Gross profit | | 50 000 |
| Income (4 000 + 12 000) | | 16 000 |
| Expenses (12 000 + 7 000) | | (19 000) |
| Net profit | | 47 000 |
| 15.2 Gross profit | 50 000 | |
| Cost of sales | (40 000) | |
| $\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$ | $\frac{50\ 000}{40\ 000} \times \frac{100}{1}$ | 125% |

## Question 16

| Colomn 1 | | Answer | Colomn 2 | |
|---|---|---|---|---|
| 1. | Service undertaking | K | A. | A business that buys goods to sell at a higher price to make a profit. |
| 2. | Income | F | B. | Debt that must be paid back within a year. |
| 3. | Owner's equity | J | C. | The order in which transactions take place in a business. |
| 4. | Fixed assets | L | D. | Assets increasing or decreasing within a year. |
| 5. | Transaction | G | E. | The business can have between two and twenty owners. |
| 6. | Source document | I | F. | Money received for providing a service. |
| 7. | Current liabilities | B | G. | Exchange between two parties. |
| 8. | Current assets | D | H. | A business can have thousands of owners. |
| 9. | Trading concern | A | I. | Used to record a transaction in the accounting records of the business. |
| 10. | Accounting cycle | C | J. | Total assets less total liabilities. |
| 11. | Partnership | E | K. | A business that renders a service to receive an income. |
| 12. | Company | H | L. | Assets with a useful life of more than a year. |

## Question 17

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|---|---|---|
| **17.1** | **Distinguish between a service undertaking and a trading concern.** | |
| | A service undertaking renders a service to generate an income to make a profit. | |
| | A trading concern purchase goods to sell at a profit. | |
| **17.2** | **Distinguish between a sole trader and a partnership.** | |
| | In a sole traders one owner receives the profit. | |
| | In a partnership between 2 – 20 partners divide the profit. | |
| **17.3** | **Distinguish between an income and an expense.** | |
| | An income increases the profit. | |
| | Expenses decrease the profit. | |
| **17.4** | **People interested in the financial statements and reasons for interest.** | |
| | Owner | Employees and trade unions |
| | Financial institutions | SARS |
| | Creditors | Competitors |
| **17.5** | **Difference between drawings and capital.** | |
| | Capital is the money or assets that the owner provides to the business. | |
| **17.6** | Drawings is the money or assets the owner withdraws from the business.<br>**Non-current assets.** | |
| | Land and buildings. | |
| | Equipment, furniture and machinery. | |
| **17.7** | **Current assets.** | |
| | Bank, cash float and petty cash. | |
| | Debtors | |
| | Trading stock | |
| **17.8** | **Non-current liabilities.** | |
| | Mortgage loan | |
| | Loan | |
| **17.9** | **Current liabilities.** | |
| | Creditors | |
| | Bank overdraft | |
| **17.10** | **Profit when cost of sales is deducted from sales.** | |
| | Gross profit | |
| **17.11** | **Profit when expenses are deducted from income.** | |
| | Net profit | |
| **17.12** | **Income** | |
| | Sales and services rendered | Commission income |
| | Rent income | Interest income |

| 17.13 | **Expenses** | |
|---|---|---|
| | Cost of sales | Commission expense |
| | Rent expense | Interest expense |
| | Stationery | Water and electricity |
| | Telephone | Insurance |

## Question 18

| | **Kolom 1** | **Antwoord** | | **Kolom 2** |
|---|---|---|---|---|
| 1. | Business entity | F | A. | Expenses and income must be reported in the same period in which they were incurred so that expenses incurred to earn the income. |
| 2. | Going concern | D | B. | If a debtor disappeared the debt will be written off to reduce the profit in the current year even the business will try to recover the debt. |
| 3. | Historical cost | E | C. | Material or important items must be shown separately in the financial statements. |
| 4. | Materiality | C | D. | Financial statements are prepared on the basis that the business will continue operating in the foreseeable future. |
| 5. | Prudence | B | E. | Fixed assets and inventory are valued at their historical cost in the balance sheet. |
| 6. | Matching | A | F. | The financial affairs of a business must be kept separately from the owner. |